

The Thales UK Pension Scheme (Section 2)

2016 SUMMARY FUNDING STATEMENT

It is part of the Trustee's responsibility to ensure that a full actuarial valuation of Section 2 of the Thales UK Pension Scheme ("the Section") is carried out every 3 years. In addition, other than in a full valuation year, the Trustee will provide you with an annual statement of how the Section is funded and remind you of the results of the last valuation. The previous statement for the Section was provided in 2014 in relation to the position as at 31 December 2013.

How is my pension funded?

Thales UK Limited and the other participating employers in the Section ("the Employers"), pay contributions so that the Section can pay pensions and other benefits to members. You also make contributions to help pay for your benefits.

The previous summary funding statement showed the results of a funding update as at 31 December 2013 being a deficit of £124m and a funding level of 80%.

The latest formal valuation of the Section was carried out at an effective date of 31 December 2014.

Results of the Formal Valuation

The formal valuation of the Section showed that on 31 December 2014 the funding position was as follows:

Assets	£526m
Amount assessed as needed to provide benefits ("Liabilities")	£695m
Surplus / (Deficit)	(£169m)
Funding level	76%

As a result of the formal valuation the Employers' contributions to the Section were amended. The Employers will pay the following contributions from September 2016:

24.3% of Pensionable Salaries (inclusive of members' contributions), which are expected to meet the cost of future service benefits, plus £1 million per annum in respect of ongoing expenses of running the Section; and in addition;

£11.8 million per annum, which is calculated to eliminate the deficit by 31 December 2028. The Employers have given a commitment to amend these contributions if necessary and if certain conditions are met as at 31 December 2017 and 31 December 2020. These deficit contributions will be guaranteed by the parent company, Thales SA, up to a total amount of £152 million until 31 December 2026, reducing over time thereafter.

Employer contributions will be reviewed as part of the next formal actuarial valuation due as at 31 December 2017.

The Trustee also obtains regular funding updates from the Scheme Actuary, which provide an estimate of the assets needed today to meet the payment of benefits allowing for future investment returns.

A funding update was carried out as at 31 December 2015.

Results of the Funding Update

A funding update of the Section showed that on 31 December 2015 the funding position was as follows:

Assets	£529m
Amount assessed as needed to provide benefits ("Liabilities")	£693m
Surplus / (Deficit)	(£164m)
Funding level	76%

Change in funding position

The deterioration in the funding level over the year to 31 December 2014 arose because of changes to investment market factors which increased the value placed on the Section's liabilities. This was partly offset by better than anticipated investment performance and extra contributions paid by the Employers to address the deficit and the impact of a review of actuarial assumptions as part of the valuation process.

The funding level was unchanged over the year to 31 December 2015. Changes to investment market factors reduced the value placed on the Section's liabilities and extra contributions were paid by the Employers to address the deficit. These positive factors were offset by lower than anticipated investment returns.

You should be aware that the factors affecting the funding level are very changeable, particularly stock market performance, interest rates and life expectancy. This means that the funding level can go up or down in the future.

Under the scheme funding regime, the method and assumptions used to value the liabilities have been chosen prudently and allowance has been made where appropriate for a suitable margin against adverse deviation from the assumptions. This does not represent the cost, though, of fully buying insurance policies to meet the liabilities (known as "full solvency"). This amount has been estimated as part of the actuarial valuation as at 31 December 2014 and is set out below.

The importance of the Employers' support

The Trustee's objective is to have enough money in the Section to pay pensions now and in the future. However, this relies on the Employers continuing in business and supporting the Section because:

- Assets can go down as well as up, and when there is a shortfall, the Employers will usually need to put in more money; and
- The cost of benefits may increase so that the Employers will need to put in more money.

Only if the Section had more than enough money to buy-out the benefits in full could a refund be paid to the Employers.

What would happen if the Section started to wind up?

We are obliged by law to provide with you information regarding what would happen in the event that the Section were to wind up.

If the Section were to wind up, the Employers would be required to pay enough into the Section to enable your benefits to be completely secured with an insurance company. As at 31 December 2014, we estimate that the Section would have been 51% funded on an insurance company buy-out basis and the Employers would therefore have been required to pay an additional £508 million into the Section to fully secure the benefits with an insurance company. Please note that this is provided for information purposes - it does not imply that the Employer is thinking of winding-up the Section.

In the event of a wind up, it may be the case that the Employers are unable to pay the full amount required by the insurance company. The Pension Protection Fund (PPF) has been set up by the government to help protect members' pensions where a company becomes insolvent, although it does not guarantee to pay full benefits. If the Employers became insolvent and the Section entered the PPF, the PPF would take over the Section and pay compensation to members. Further information and guidance is available on the PPF's website at www.pensionprotectionfund.org.uk. Or you can write to the Pension Protection Fund at Renaissance, 12 Dingwall Road, Croydon, Surrey, CR0 2NA.

What is the Section invested in?

The Trustee's policy is to invest in a broad range of assets to get the best return possible while taking account of the liabilities of the Section, and the risks of having too much money in any one type of investment. As at 31 December 2015 the Section assets were invested in the following broad proportions:

Shares in UK and overseas companies (equities)	32%
Bonds	46%
Alternative investments	21%
Cash	1%

Where can I get further information?

If you have any other questions, or would like any more information about the Scheme or the Section, please contact us at the address below.

Please note that if you are considering leaving the Section, we suggest that you consult an appropriate financial adviser before taking any action.

Yours sincerely

Thales Pension Trustees (Section 2) Limited

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